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GAIN Report

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Date: 9/1/2010

GAIN Report Number: IN1081

India

Cotton and Products Update

September 2010 Quarterly

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Report Highlights:

The cotton production forecast for MY 2010/11 is raised to a record 26 million bales on expected record planting (10.9 million hectares) and improved yield prospects due to favorable weather conditions. Exports are forecast at 5.5 million bales as there is a widely held expectation that Government of India (GOI) could impose quota restrictions to ensure adequate cotton for domestic consumption and ending stocks.

Post:
New Delhi

Author Defined:

India Set for a Record Cotton Crop

The cotton production forecast for MY 2010/11 is raised to a record 26.0 million bales on higher planting and improved yield prospects due to overall favorable weather conditions and absence of major pest or disease outbreaks in most growing areas. However, weather during September will be crucial and could still affect crop prospects. Cotton planting is almost over, except for some pockets in southern India. Based on the provisional planting estimates from the state agriculture departments, MY 2010/11 cotton area is forecast to increase to a record 10.9 million hectares, nearly 6 percent over the last year's record planting. Current industry production estimates for the upcoming crop are optimistically ranging from 25 to 26.5 million bales (32 to 34 million Indian bales of 170 kg). On August 27, 2010, the Cotton Advisory Board came out with its first estimate for the MY 2010/11 crop at 25.4 million bales (32.5 million Indian bales).

India is heading towards a record crop on record cotton planting and improved yield prospects over last year's crop stressed by inadequate rainfall. Most cotton growing areas received adequate and well-distributed monsoon rains from July through August, establishing excellent planting and growing conditions for the crop. However, planting of irrigated cotton in northern India (Punjab/Haryana/Rajasthan) was impacted by inadequate canal water availability at the time of planting (May through first week of June). Adequate and well distributed monsoon rainfall from July through August supported timely cotton planting in the largely rainfed cotton belt of central and southern India, unlike last year wherein planting was delayed by 3-4 weeks due to lack of rains in the month of July. Cotton planting in central India (Gujarat/Maharashtra/Madhya Pradesh) was concluded by the third week of August, and is almost over in southern India (Andhra Pradesh/Karnataka/Tamil Nadu) except for some pockets. The statewide planting figures compiled by the Ministry of Agriculture (MoA) indicates total cotton planting through August 26, 2010 is 10.6 million hectares compared to 9.8 million hectares during the same period last year. Statewise figures reveal significant increase in cotton planting in the states of Andhra Pradesh, Maharashtra, Madhya Pradesh and Karnataka (see Table 2) due to relatively strong cotton prices vis-à-vis prices of other competing crops last year.

The crop is progressing well under adequate moisture conditions in most cotton growing areas. Market sources report that about 90 percent of the area is under Bt cotton, and there has been a significant increase in area under Bt varieties with higher yield potential. The cotton crop in central and southern India is free of any major pest and diseases. Although there are some reports of minor pest incidences (leaf curl virus/white flies) in some pockets of north India, there are no reports of any major damage to the crop. These factors coupled with timely cotton planting together support higher yield expectations for the MY 2010/11 crop. However, continued good rains and cloud cover through the middle of August in most of the cotton growing areas is expected to delay the new crop arrivals by 2 to 3 weeks. Although there are no reports of losses due to excess rains, heavy rains during September could hamper crop yield and quality, particularly in north India, Gujarat and Andhra Pradesh (which is prone to cyclones).

Prices Strong Despite Bumper Crop Expectations

Despite the expectation of a record crop, domestic cotton prices in August firmed up further (see table 3) on strong international prices. Current prices of most staple varieties are ranging from 73 to 98 cents/lbs. With the expected delayed new crop arrivals, prices are expected to remain firm through October, but are likely to ease starting early November as arrivals gain pace central India. However, international prices will largely guide domestic price movements during most of the season.

GOI Allows Exports, But May Impose Quantitative Restrictions

On August 17, 2010, The Directorate General of Foreign Trade (DGFT), Ministry of Commerce and Industry (MoCI) notified that exports of raw cotton and waste (HS Codes 5201, 5202, and 5203) have been moved back to the free list and exports are allowed without any licensing restrictions. The notification further specifies that all contracts for exports have to be registered with the Textile Commissioner's Office prior to shipment. The notification is effective October 1, 2010 at the beginning of the Indian cotton marketing year. Earlier in May 2010, the DGFT had imposed licensing restrictions on exports of raw cotton and waste (See IN1049) after a surge in exports was thought to have resulted in rise in local cotton prices.

Although the GOI has allowed resumption of cotton exports in the upcoming season, there is a widely held expectation that quantitative restrictions on cotton exports could be introduced to ensure adequate availability to the domestic mills and ending stocks. Officials of the Ministries of Commerce, Agriculture and Textile are scheduled to meet in the first week of September to assess the cotton production and demand situation to arrive at an estimate for exportable surplus. The MoA is not in favor of any quota restrictions as it would like the cotton farmers to benefit from higher international prices. On the other hand, the Ministry of Textile (MoT) wants to impose 'stringent' export quota to ensure adequate cotton availability to the local textile mills, who are concerned about further escalation in cotton prices if exports are allowed without controls. The MoCI would like to balance the interests of the two ministries in a manner that is consistent with the World Trade Organization obligations.

Market sources report that the GOI is exploring the option of establishing a quota limit for exports, wherein exports within the quota limits will be freely allowed, and high export duty would be imposed for exports beyond the quota. However, it is still not clear how the government plans to implement the quota regime –

- whether there will be monthly, quarterly or annual quota allocation
- whether quota allocation will be on first-come-first serve basis or based on export prices

The GOI may initially establish an export quota at the beginning of the season, which will be reviewed periodically based on the cotton supply, demand and market price situation. On August 27th, the CAB assessed an exportable surplus of about 3.9 million bales (4.95 million Indian bales). Some of the trade sources believe that the CAB may have underestimated the supply estimates (opening stocks, production and imports) and overestimated consumption while arriving at the exportable surplus. The government is most likely to adopt the CAB's current estimate while announcing the initial export quota as the current domestic cotton prices are well above (15-20 percent) the government's established minimum support price (MSP) for seed cotton. If the domestic cotton prices fall to MSP levels, the farmers and Ministry of Agriculture will lobby for increasing the export quota.

Government Policy to Curtail MY 2010/11 Exports

Cotton exports for MY 2010/11 are forecast at 5.5 million bales on expected government export controls through quota restriction to ensure adequate supplies to the domestic textile industry.

Besides ensuring adequate cotton supplies to meet the consumption requirement during the marketing year, the MoT wants to ensure adequate Indian marketing year (IMY) 2010/11 (September 2011) ending stocks and sufficient supplies for the first quarter of the IMY 2011/12. The MoT and the local textile industry want to ensure that the September 2011 ending stocks remain at 3.9 to 4.3 million bales (5.0 to 5.5 million Indian bales of 170 kg). Consequently, MY 2010/11 exports are forecast at 5.5 million bales at the current forecast supplies (production and opening stocks), consumption and ending stocks (August 2011).

STATISTICAL TABLES

Table 1: Commodity, Cotton (480 lb bales), PSD

(Area in Thousand Hectares and Other Figures in thousand 480 lb bales)

Cotton India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Aug 2008			Market Year Begin: Aug 2009			Market Year Begin: Aug 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	0	9,406	9,406	0	10,260	10,329	0	10,300	10,900
Area Harvested	9,406	9,406	9,406	10,260	10,260	10,329	10,700	10,300	10,900
Beginning Stocks	5,629	6,634	5,629	8,919	9,764	8,919	6,869	7,814	6,869
Production	22,600	22,600	22,600	23,500	23,500	23,500	26,000	25,000	26,000
Imports	800	800	800	600	600	600	625	625	625
MY Imports from U.S.	0	190	190	0	180	180	0	200	200
Total Supply	29,029	30,034	29,029	33,019	33,864	33,019	33,494	33,439	33,494
Exports	2,360	2,370	2,360	6,550	6,400	6,550	6,500	5,500	5,500
Use	17,750	16,300	16,300	19,600	17,950	17,950	20,400	18,750	18,800
Loss	0	1,600	1,450	0	1,700	1,650	0	1,800	1,800
Total Dom. Cons.	17,750	17,900	17,750	19,600	19,650	19,600	20,400	20,550	20,600
Ending Stocks	8,919	9,764	8,919	6,869	7,814	6,869	6,594	7,389	7,394
Total Distribution	29,029	30,034	29,029	33,019	33,864	33,019	33,494	33,439	33,494

Note: Production figures in the table include 937,000 bales of loose cotton.

Table 2: Area, Production & Yield of Cotton in Major States

(Area 000 ha; Production 000 bales, Yield kg/ha)

		Final	Final	Final	Final	Final	Revised	Revised	Revised
STATE		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Maharashtra	Area	2766	2840	2889	3107	3194	3142	3503	3950
	Production	2420	4060	2811	3904	4841	4841	4919	6012
	Yield	191	311	212	274	330	335	306	331
Gujarat	Area	1647	1906	2077	2390	2422	2354	2625	2600
	Production	3904	5700	6949	8042	8589	7027	7808	8355
	Yield	516	651	728	733	772	650	648	700
Madhya Pradesh	Area	591	576	600	639	630	625	604	640
	Production	1534	1249	1405	1484	1562	1405	1171	1405
	Yield	565	472	510	505	540	490	422	478
Punjab	Area	452	509	557	607	604	527	536	530
	Production	808	1288	1562	1874	1562	1366	1132	1288

	Yield	389	551	610	672	563	565	460	529
Haryana	Area	526	621	583	530	483	456	507	445
	Production	898	1210	1015	1171	1171	1093	1171	1093
	Yield	372	424	379	481	528	522	503	535
Rajasthan	Area	344	438	472	350	339	302	444	255
	Production	714	859	859	703	703	586	859	508
	Yield	452	427	396	437	451	422	421	433
Andhra Pradesh	Area	837	1178	1037	972	1138	1399	1483	1750
	Production	2139	2538	2499	2811	3592	4138	4216	5075
	Yield	557	469	525	630	687	644	619	631
Karnataka	Area	313	521	450	378	402	408	427	500
	Production	328	625	508	468	625	703	703	781
	Yield	228	261	246	270	338	375	358	340
Tamil Nadu	Area	103	129	136	100	119	109	115	120
	Production	293	429	429	390	312	390	429	390
	Yield	619	725	688	850	571	780	813	708
Others	Area	51	68	72	71	108	84	85	110
	Production	78	78	78	78	78	156	156	156
	Yield	333	250	236	239	157	405	400	309
Loose	Production	859	937	937	937	937	937	937	937
All-India	Area	7630	8786	8873	9144	9439	9406	10329	10900
	Production	13976	18973	19051	21862	23970	22643	23502	26001
	Yield	399	470	467	521	553	524	495	519

Note: Statewise break-up for loose cotton is not available.

Table 3: Month-End Prices of Popular Varieties
(Rupees per Ton)

Year	ICS 201	ICS 202	ICS 105 28mm	ICS 105 29mm	ICS 106 33mm	ICS 107
	Bengal Deshi	SG J-34	H-4	Shankar-6	MCU-5	DCH-32
	(below 22 mm)	(25 mm)	(28 mm)	(29 mm)	(33 mm)	(35 mm)
2008/09						
Aug	75360	74520	79020	80140	82960	91390
Sept	70020	68050	77330	77890	81550	89980
Oct	74520	60740	63830	64680	69740	88580
Nov	71143	55396	60458	60739	68331	84360
Dec	73112	57646	59052	60458	65801	78736
Jan	72549	59052	58771	59895	63551	78736
Feb	64676	56240	55959	57365	61301	74518
Mar	64113	60739	59333	62145	64676	90265
Apr	65238	62989	59052	63832	65238	89984
May	67488	64676	61301	65238	66644	90546
Jun	67769	65238	61583	65238	67207	91108
Jul	66925	64957	63270	66363	68050	93077
2009/10						
Aug	66925	63832	62426	64957	68050	93077
Sept	65801	59614	60739	62989	66644	92514
Oct	68613	62145	61583	66925	66644	92514
Nov	73112	68331	70581	73112	75924	120916
Dec	68894	70862	73112	76767	78455	113886
Jan	65519	70300	70581	73112	76486	112480
Feb	61864	71143	73393	76205	77611	112480
Mar	59330	75360	76490	79860	na	116700

<i>Apr</i>	<i>61300</i>	<i>76490</i>	<i>75920</i>	<i>77890</i>	<i>na</i>	<i>122320</i>
<i>May</i>	<i>67490</i>	<i>82670</i>	<i>80140</i>	<i>83520</i>	<i>na</i>	<i>119510</i>
<i>Jun</i>	<i>66360</i>	<i>80980</i>	<i>80140</i>	<i>83520</i>	<i>na</i>	<i>115290</i>
<i>Jul</i>	<i>66930</i>	<i>81830</i>	<i>80140</i>	<i>83800</i>	<i>na</i>	<i>116700</i>
<i>2009/10</i>						
<i>Aug 26</i>	<i>73670</i>	<i>90550</i>	<i>89980</i>	<i>93920</i>	<i>99260</i>	<i>120070</i>

Source: Cotton Association of India (Formerly East India Cotton Association), Mumbai.